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REFERENCE TITLE: **tax credits; water conservation systems.**

State of Arizona
House of Representatives
Forty-seventh Legislature
First Regular Session
2005

HB 2323

Introduced by
Representative Gray C: Senator Giffords

AN ACT

AMENDING SECTIONS 43-222 AND 43-1021, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 43-1090.01 AND 43-1090.02; AMENDING SECTION 43-1121, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1182; RELATING TO INDIVIDUAL AND CORPORATE INCOME TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 43-222, Arizona Revised Statutes, is amended to
3 read:

4 43-222. Income tax credit review schedule

5 Each year the joint legislative income tax credit review committee
6 shall review the following income tax credits:

7 1. In 2004, sections 43-1081.01, 43-1083, 43-1084 and 43-1170.01.

8 2. In 2005, sections 43-1087, 43-1088 and 43-1175.

9 3. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02,
10 43-1090, 43-1176 and 43-1181.

11 4. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165,
12 43-1166, 43-1167 and 43-1169.

13 5. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and
14 43-1178.

15 6. In 2009, sections 43-1076 and 43-1162.

16 7. IN 2010, SECTIONS 43-1090.01, 43-1090.02 AND 43-1182.

17 Sec. 2. Section 43-1021, Arizona Revised Statutes, is amended to read:

18 43-1021. Additions to Arizona gross income

19 In computing Arizona adjusted gross income, the following amounts shall
20 be added to Arizona gross income:

21 1. A beneficiary's share of the fiduciary adjustment to the extent
22 that the amount determined by section 43-1333 increases the beneficiary's
23 Arizona gross income.

24 2. An amount equal to the "ordinary income portion" of a lump sum
25 distribution that was excluded from federal adjusted gross income pursuant to
26 section 402(d) of the internal revenue code.

27 3. The amount of interest income received on obligations of any state,
28 territory or possession of the United States, or any political subdivision
29 thereof, located outside the state of Arizona, reduced, for tax years
30 beginning from and after December 31, 1996, by the amount of any interest on
31 indebtedness and other related expenses that were incurred or continued to
32 purchase or carry those obligations and that are not otherwise deducted or
33 subtracted in arriving at Arizona gross income.

34 4. Annuity income received during the taxable year to the extent that
35 the sum of the proceeds received from such annuity in all taxable years prior
36 to and including the current taxable year exceeds the total consideration and
37 premiums paid by the taxpayer. This paragraph applies only to those
38 annuities with respect to which the first payment was received prior to
39 December 31, 1978.

40 5. The excess of a partner's share of partnership taxable income
41 required to be included under chapter 14, article 2 of this title over the
42 income required to be reported under section 702(a)(8) of the internal
43 revenue code.

44 6. The excess of a partner's share of partnership losses determined
45 pursuant to section 702(a)(8) of the internal revenue code over the losses
46 allowable under chapter 14, article 2 of this title.

1 7. The amount by which the adjusted basis of property described in
2 this paragraph and computed pursuant to the internal revenue code exceeds the
3 adjusted basis of such property computed pursuant to this title and the
4 income tax act of 1954, as amended. This paragraph shall apply to all
5 property which is held for the production of income and which is sold or
6 otherwise disposed of during the taxable year, except depreciable property
7 used in a trade or business.

8 8. The amount of depreciation or amortization of costs of any capital
9 investment that is deducted pursuant to section 167 or 179 of the internal
10 revenue code by a qualified defense contractor with respect to which an
11 election is made to amortize pursuant to section 43-1024.

12 9. The amount of gain from the sale or other disposition of a capital
13 investment which a qualified defense contractor has elected to amortize
14 pursuant to section 43-1024.

15 10. Amounts withdrawn from the Arizona state retirement system, the
16 corrections officer retirement plan, the public safety personnel retirement
17 system, the elected officials' retirement plan or a county or city retirement
18 plan by an employee upon termination of employment before retirement to the
19 extent they were deducted in arriving at Arizona taxable income in any year.

20 11. That portion of the net operating loss included in federal adjusted
21 gross income which has already been taken as a net operating loss for Arizona
22 purposes or which is separately taken as a subtraction under the special net
23 operating loss transition rule.

24 12. Any nonitemized amount deducted pursuant to section 170 of the
25 internal revenue code representing contributions to an educational
26 institution which denies admission, enrollment or board and room
27 accommodations on the basis of race, color or ethnic background except those
28 institutions primarily established for the education of American Indians.

29 13. The amount paid as taxes on property in this state with respect to
30 which a credit is claimed under section 43-1078.

31 14. Amounts withdrawn from a medical savings account by the individual
32 during the taxable year computed pursuant to section 220(f) of the internal
33 revenue code and not included in federal adjusted gross income.

34 15. Any amount of agricultural water conservation expenses that were
35 deducted pursuant to the internal revenue code for which a credit is claimed
36 under section 43-1084.

37 16. The amount by which the depreciation or amortization computed under
38 the internal revenue code with respect to property for which a credit was
39 taken under section 43-1080 exceeds the amount of depreciation or
40 amortization computed pursuant to the internal revenue code on the Arizona
41 adjusted basis of the property.

42 17. The amount by which the adjusted basis computed under the internal
43 revenue code with respect to property for which a credit was claimed under
44 section 43-1080 and which is sold or otherwise disposed of during the taxable
45 year exceeds the adjusted basis of the property computed under section
46 43-1080.

1 18. The amount by which the depreciation or amortization computed under
2 the internal revenue code with respect to property for which a credit was
3 taken under either section 43-1081 or 43-1081.01 exceeds the amount of
4 depreciation or amortization computed pursuant to the internal revenue code
5 on the Arizona adjusted basis of the property.

6 19. The amount by which the adjusted basis computed under the internal
7 revenue code with respect to property for which a credit was claimed under
8 either section 43-1081 or 43-1081.01 and which is sold or otherwise disposed
9 of during the taxable year exceeds the adjusted basis of the property
10 computed under section 43-1081 or 43-1081.01, as applicable.

11 20. The deduction referred to in section 1341(a)(4) of the internal
12 revenue code for restoration of a substantial amount held under a claim of
13 right.

14 21. The amount by which a net operating loss carryover or capital loss
15 carryover allowable pursuant to section 1341(b)(5) of the internal revenue
16 code exceeds the net operating loss carryover or capital loss carryover
17 allowable pursuant to section 43-1029, subsection F.

18 22. Any amount deducted pursuant to section 170 of the internal revenue
19 code representing contributions to a school tuition organization or a public
20 school for which a credit is claimed under section 43-1089 or 43-1089.01.

21 23. Any amount deducted in computing Arizona gross income as expenses
22 for installing solar stub outs or electric vehicle recharge outlets in this
23 state with respect to which a credit is claimed pursuant to section 43-1090.

24 24. Any wage expenses deducted pursuant to the internal revenue code
25 for which a credit is claimed under section 43-1087 and representing net
26 increases in qualified employment positions for employment of temporary
27 assistance for needy families recipients.

28 25. Any amount deducted for conveying ownership or development rights
29 of property to an agricultural preservation district under section 48-5702
30 for which a credit is claimed under section 43-1081.02.

31 26. The amount of any depreciation allowance allowed pursuant to
32 section 167(a) of the internal revenue code to the extent not previously
33 added.

34 27. With respect to property for which an expense deduction was taken
35 pursuant to section 179 of the internal revenue code, the amount in excess of
36 twenty-five thousand dollars.

37 28. THE AMOUNT BY WHICH THE DEPRECIATION OR AMORTIZATION COMPUTED UNDER
38 THE INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY FOR WHICH A CREDIT WAS
39 TAKEN UNDER SECTION 43-1090.01 EXCEEDS THE AMOUNT OF DEPRECIATION OR
40 AMORTIZATION COMPUTED PURSUANT TO THE INTERNAL REVENUE CODE ON THE ARIZONA
41 ADJUSTED BASIS OF THE PROPERTY.

42 29. THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE INTERNAL
43 REVENUE CODE WITH RESPECT TO PROPERTY FOR WHICH A CREDIT WAS CLAIMED UNDER
44 SECTION 43-1090.01 AND WHICH IS SOLD OR OTHERWISE DISPOSED OF DURING THE
45 TAXABLE YEAR EXCEEDS THE ADJUSTED BASIS OF THE PROPERTY COMPUTED UNDER
46 SECTION 43-1090.01.

30. ANY AMOUNT DEDUCTED IN COMPUTING ARIZONA GROSS INCOME AS EXPENSES FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN THIS STATE WITH RESPECT TO WHICH A CREDIT IS CLAIMED PURSUANT TO SECTION 43-1090.02.

Sec. 3. Title 43, chapter 10, article 5, Arizona Revised Statutes, is amended by adding sections 43-1090.01 and 43-1090.02, to read:

43-1090.01. Credit for water conservation systems: definition

A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2005 AND ENDING BEFORE JANUARY 1, 2011, A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR EACH RESIDENT WHO IS NOT A DEPENDENT OF ANOTHER TAXPAYER FOR INSTALLING A WATER CONSERVATION SYSTEM DURING THE TAXABLE YEAR IN THE TAXPAYER'S RESIDENCE LOCATED IN THIS STATE. THE CREDIT IS EQUAL TO TWENTY-FIVE PER CENT OF THE COST OF THE SYSTEM.

B. THE MAXIMUM CREDIT IN A TAXABLE YEAR MAY NOT EXCEED ONE THOUSAND DOLLARS. THE PERSON WHO PROVIDES THE WATER CONSERVATION SYSTEM SHALL FURNISH THE TAXPAYER WITH AN ACCOUNTING OF THE COST TO THE TAXPAYER. A TAXPAYER MAY CLAIM THE CREDIT UNDER THIS SECTION ONLY ONCE IN A TAX YEAR AND MAY NOT CUMULATE OVER DIFFERENT TAX YEARS TAX CREDITS UNDER THIS SECTION EXCEEDING, IN THE AGGREGATE, ONE THOUSAND DOLLARS FOR THE SAME RESIDENCE.

C. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

D. A HUSBAND AND WIFE WHO FILE SEPARATE RETURNS FOR A TAXABLE YEAR IN WHICH THEY COULD HAVE FILED A JOINT RETURN MAY EACH CLAIM ONLY ONE-HALF OF THE TAX CREDIT THAT WOULD HAVE BEEN ALLOWED FOR A JOINT RETURN.

E. THE CREDIT ALLOWED UNDER THIS SECTION IS IN LIEU OF ANY ALLOWANCE FOR STATE TAX PURPOSES FOR EXHAUSTION, WEAR AND TEAR OF THE WATER CONSERVATION SYSTEM UNDER SECTION 167 OF THE INTERNAL REVENUE CODE.

F. TO QUALIFY FOR THE CREDIT UNDER THIS SECTION THE WATER CONSERVATION SYSTEM AND ITS INSTALLATION SHALL COMPLY WITH RULES THAT ARE ADOPTED BY THE DEPARTMENT OF ENVIRONMENTAL QUALITY AND THAT RELATE TO THE RECOVERY AND DISPOSAL OF GRAYWATER.

G. A GRAYWATER STUB OUT THAT WAS INSTALLED BY THE BUILDER OF A HOUSE OR DWELLING UNIT BEFORE TITLE WAS CONVEYED TO THE TAXPAYER DOES NOT QUALIFY FOR A CREDIT UNDER THIS SECTION, BUT THE TAXPAYER MAY CLAIM A CREDIT FOR THE DEVICE UNDER SECTION 43-1090.02 OR 43-1182 UNDER THE CIRCUMSTANCES, CONDITIONS AND LIMITATIONS PRESCRIBED BY SECTION 43-1090.02, SUBSECTION C OR 43-1182, SUBSECTION C, AS APPLICABLE.

H. IF THE TOTAL AMOUNT OF TAX CREDITS CLAIMED UNDER THIS SECTION EXCEEDS ONE MILLION FIVE HUNDRED THOUSAND DOLLARS IN ANY CALENDAR YEAR, THE DEPARTMENT SHALL NOT ALLOW IN ANY SUBSEQUENT CALENDAR YEAR ANY ADDITIONAL TAX CREDITS UNDER THIS SECTION.

I. FOR THE PURPOSES OF THIS SECTION, "WATER CONSERVATION SYSTEM" MEANS A SYSTEM OR A SERIES OF COMPONENTS OR MECHANISMS THAT ARE DESIGNED TO PROVIDE FOR THE COLLECTION OF RAINWATER OR RESIDENTIAL GRAYWATER. WATER CONSERVATION

SYSTEM INCLUDES A SYSTEM THAT IS CAPABLE OF STORING RAINWATER OR RESIDENTIAL GRAYWATER FOR FUTURE USE AND REUSING THE COLLECTED WATER FOR THE SAME RESIDENTIAL PROPERTY.

43-1090.02. Credit for water conservation system plumbing stub
outs installed in houses constructed by taxpayer:
definition

A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2005 AND ENDING BEFORE JANUARY 1, 2011, A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR COSTS INCURRED DURING THE TAXABLE YEAR OF INSTALLING OR INCLUDING IN ONE OR MORE HOUSES OR DWELLING UNITS LOCATED IN THIS STATE AND CONSTRUCTED BY THE TAXPAYER A WATER CONSERVATION SYSTEM PLUMBING STUB OUT THAT COLLECTS ALL GRAYWATER SOURCES THAT END AT A PLUMBING STUB OUT THAT IS SEPARATE AND DISTINCT FROM THE REGULAR PLUMBING SYSTEM. TO QUALIFY FOR THE CREDIT THE STUB OUT MUST:

1. COMPLY WITH RULES THAT ARE ADOPTED BY THE DEPARTMENT OF ENVIRONMENTAL QUALITY AND THAT RELATE TO THE DIRECT REUSE OF RECLAIMED WATER.

2. MEET APPLICABLE LOCAL BUILDING CODES.

B. THE CREDIT SHALL NOT EXCEED TWO HUNDRED DOLLARS FOR EACH SEPARATE HOUSE OR DWELLING UNIT IN WHICH THE WATER CONSERVATION SYSTEM PLUMBING STUB OUTS ARE INSTALLED.

C. THE TAXPAYER MAY ELECT TO TRANSFER A CREDIT UNDER THIS SECTION TO A PURCHASER OR TRANSFEREE OF THE HOUSE OR DWELLING UNIT. IF THE TAXPAYER ELECTS TO TRANSFER THE CREDIT, THE TAXPAYER SHALL DELIVER TO THE PURCHASER OR TRANSFEREE A WRITTEN STATEMENT THAT THE TAXPAYER HAS ELECTED NOT TO CLAIM THE CREDIT AND THAT THE PURCHASER OR TRANSFEREE MAY CLAIM THE CREDIT, SUBJECT TO THE CONDITIONS AND LIMITATIONS PRESCRIBED BY THIS SECTION.

D. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS TITLE, THE AMOUNT OF THE CREDIT NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY BE CARRIED FORWARD TO THE NEXT FIVE CONSECUTIVE TAXABLE YEARS AS A CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

E. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP AND SHAREHOLDERS OF AN S CORPORATION, AS DEFINED IN SECTION 1361 OF THE INTERNAL REVENUE CODE, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN ALLOWED A SOLE OWNER.

F. THE CREDIT ALLOWED UNDER THIS SECTION IS IN LIEU OF ANY EXPENSES TAKEN FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN COMPUTING ARIZONA TAXABLE INCOME.

G. IF THE TOTAL AMOUNT OF TAX CREDITS CLAIMED UNDER THIS SECTION EXCEEDS ONE MILLION FIVE HUNDRED THOUSAND DOLLARS IN ANY CALENDAR YEAR, THE DEPARTMENT SHALL NOT ALLOW IN ANY SUBSEQUENT CALENDAR YEAR ANY ADDITIONAL TAX CREDITS UNDER THIS SECTION.

H. FOR THE PURPOSES OF THIS SECTION, "WATER CONSERVATION SYSTEM" MEANS A SYSTEM OR A SERIES OF COMPONENTS OR MECHANISMS THAT ARE DESIGNED TO PROVIDE

1 FOR THE COLLECTION OF RAINWATER OR RESIDENTIAL GRAYWATER. WATER CONSERVATION
2 SYSTEM INCLUDES A SYSTEM THAT IS CAPABLE OF STORING RAINWATER OR RESIDENTIAL
3 GRAYWATER FOR FUTURE USE AND REUSING THE COLLECTED WATER FOR THE SAME
4 RESIDENTIAL PROPERTY.

5 Sec. 4. Section 43-1121, Arizona Revised Statutes, is amended to read:

6 43-1121. Additions to Arizona gross income: corporations

7 In computing Arizona taxable income for a corporation, the following
8 amounts shall be added to Arizona gross income:

9 1. The amounts computed pursuant to section 43-1021, paragraphs 3
10 through 9, 12, 26 and 27.

11 2. The amount of dividend income received from corporations and
12 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal
13 revenue code.

14 3. Taxes which are based on income paid to states, local governments
15 or foreign governments and which were deducted in computing federal taxable
16 income.

17 4. Expenses and interest relating to tax-exempt income on indebtedness
18 incurred or continued to purchase or carry obligations the interest on which
19 is wholly exempt from the tax imposed by this title. Financial institutions,
20 as defined in section 6-101, shall be governed by section 43-961, paragraph
21 2.

22 5. Commissions, rentals and other amounts paid or accrued to a
23 domestic international sales corporation controlled by the payor corporation
24 if the domestic international sales corporation is not required to report its
25 taxable income to this state because its income is not derived from or
26 attributable to sources within this state. If the domestic international
27 sales corporation is subject to article 4 of this chapter, the department
28 shall prescribe by rule the method of determining the portion of the
29 commissions, rentals and other amounts which are paid or accrued to the
30 controlled domestic international sales corporation and which shall be
31 deducted by the payor. "Control" for purposes of this paragraph means direct
32 or indirect ownership or control of fifty per cent or more of the voting
33 stock of the domestic international sales corporation by the payor
34 corporation.

35 6. Federal income tax refunds received during the taxable year to the
36 extent they were deducted in arriving at Arizona taxable income in a previous
37 year.

38 7. The amount of net operating loss taken pursuant to section 172 of
39 the internal revenue code.

40 8. The amount of exploration expenses determined pursuant to section
41 617 of the internal revenue code to the extent that they exceed seventy-five
42 thousand dollars and to the extent that the election is made to defer those
43 expenses not in excess of seventy-five thousand dollars.

44 9. Amortization of costs incurred to install pollution control devices
45 and deducted pursuant to the internal revenue code or the amount of deduction

1 for depreciation taken pursuant to the internal revenue code on pollution
2 control devices for which an election is made pursuant to section 43-1129.

3 10. The amount of depreciation or amortization of costs of child care
4 facilities deducted pursuant to section 167 or 188 of the internal revenue
5 code for which an election is made to amortize pursuant to section 43-1130.

6 11. Arizona state income tax refunds received, to the extent the amount
7 of the refunds is not already included in Arizona gross income, if a tax
8 benefit was derived by deduction of this amount in a prior year.

9 12. The amount paid as taxes on property in this state by a qualified
10 defense contractor with respect to which a credit is claimed under section
11 43-1166.

12 13. The loss of an insurance company that is exempt under section
13 43-1201 to the extent that it is included in computing Arizona gross income
14 on a consolidated return pursuant to section 43-947.

15 14. The amount by which the depreciation or amortization computed under
16 the internal revenue code with respect to property for which a credit was
17 taken under section 43-1169 exceeds the amount of depreciation or
18 amortization computed pursuant to the internal revenue code on the Arizona
19 adjusted basis of the property.

20 15. The amount by which the adjusted basis computed under the internal
21 revenue code with respect to property for which a credit was claimed under
22 section 43-1169 and which is sold or otherwise disposed of during the taxable
23 year exceeds the adjusted basis of the property computed under section
24 43-1169.

25 16. The amount by which the depreciation or amortization computed under
26 the internal revenue code with respect to property for which a credit was
27 taken under either section 43-1170 or 43-1170.01 exceeds the amount of
28 depreciation or amortization computed pursuant to the internal revenue code
29 on the Arizona adjusted basis of the property.

30 17. The amount by which the adjusted basis computed under the internal
31 revenue code with respect to property for which a credit was claimed under
32 either section 43-1170 or 43-1170.01 and which is sold or otherwise disposed
33 of during the taxable year exceeds the adjusted basis of the property
34 computed under section 43-1170 or 43-1170.01, as applicable.

35 18. The deduction referred to in section 1341(a)(4) of the internal
36 revenue code for restoration of a substantial amount held under a claim of
37 right.

38 19. The amount by which a capital loss carryover allowable pursuant to
39 section 1341(b)(5) of the internal revenue code exceeds the capital loss
40 carryover allowable pursuant to section 43-1130.01, subsection F.

41 20. Any amount deducted in computing Arizona taxable income as expenses
42 for installing solar stub outs or electric vehicle recharge outlets in this
43 state with respect to which a credit is claimed pursuant to section 43-1176.

44 21. Any wage expenses deducted pursuant to the internal revenue code
45 for which a credit is claimed under section 43-1175 and representing net

1 increases in qualified employment positions for employment of temporary
2 assistance for needy families recipients.

3 22. Any amount of expenses that were deducted pursuant to the internal
4 revenue code and for which a credit is claimed under section 43-1178.

5 23. Any amount deducted for conveying ownership or development rights
6 of property to an agricultural preservation district under section 48-5702
7 for which a credit is claimed under section 43-1180.

8 24. The amount of any deduction that is claimed in computing Arizona
9 gross income and that represents a donation of a school site for which a
10 credit is claimed under section 43-1181.

11 25. ANY AMOUNT DEDUCTED IN COMPUTING ARIZONA TAXABLE INCOME AS EXPENSES
12 FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN THIS STATE
13 WITH RESPECT TO WHICH A CREDIT IS CLAIMED PURSUANT TO SECTION 43-1182.

14 Sec. 5. Title 43, chapter 11, article 6, Arizona Revised Statutes, is
15 amended by adding section 43-1182, to read:

16 43-1182. Credit for water conservation system plumbing stub
17 outs installed in houses constructed by taxpayer;
18 definition

19 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2005 AND
20 ENDING BEFORE JANUARY 1, 2011, A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED
21 BY THIS TITLE FOR COSTS INCURRED DURING THE TAXABLE YEAR OF INSTALLING OR
22 INCLUDING IN ONE OR MORE HOUSES OR DWELLING UNITS LOCATED IN THIS STATE AND
23 CONSTRUCTED BY THE TAXPAYER A WATER CONSERVATION SYSTEM PLUMBING STUB OUT
24 THAT COLLECTS ALL GRAYWATER SOURCES THAT END AT A PLUMBING STUB OUT THAT IS
25 SEPARATE AND DISTINCT FROM THE REGULAR PLUMBING SYSTEM. TO QUALIFY FOR THE
26 CREDIT THE STUB OUT MUST:

27 1. COMPLY WITH RULES THAT ARE ADOPTED BY THE DEPARTMENT OF
28 ENVIRONMENTAL QUALITY AND THAT RELATE TO THE DIRECT REUSE OF RECLAIMED WATER.

29 2. MEET APPLICABLE LOCAL BUILDING CODES.

30 B. THE CREDIT SHALL NOT EXCEED TWO HUNDRED DOLLARS FOR EACH SEPARATE
31 HOUSE OR DWELLING UNIT IN WHICH THE WATER CONSERVATION SYSTEM PLUMBING STUB
32 OUTS ARE INSTALLED.

33 C. THE TAXPAYER MAY ELECT TO TRANSFER A CREDIT UNDER THIS SECTION TO A
34 PURCHASER OR TRANSFEREE OF THE HOUSE OR DWELLING UNIT. IF THE TAXPAYER
35 ELECTS TO TRANSFER THE CREDIT, THE TAXPAYER SHALL DELIVER TO THE PURCHASER OR
36 TRANSFEREE A WRITTEN STATEMENT THAT THE TAXPAYER HAS ELECTED NOT TO CLAIM THE
37 CREDIT AND THAT THE PURCHASER OR TRANSFEREE MAY CLAIM THE CREDIT, SUBJECT TO
38 THE CONDITIONS AND LIMITATIONS PRESCRIBED BY THIS SECTION.

39 D. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER THIS
40 TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS
41 TITLE, THE AMOUNT OF THE CREDIT NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY
42 BE CARRIED FORWARD TO THE NEXT FIVE CONSECUTIVE TAXABLE YEARS AS A CREDIT
43 AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

44 E. CO-OWNERS OF A BUSINESS, INCLUDING CORPORATE PARTNERS IN A
45 PARTNERSHIP, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED
46 UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS

1 ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN
2 ALLOWED A SOLE OWNER.

3 F. THE CREDIT ALLOWED UNDER THIS SECTION IS IN LIEU OF ANY EXPENSES
4 TAKEN FOR INSTALLING WATER CONSERVATION SYSTEM PLUMBING STUB OUTS IN
5 COMPUTING ARIZONA TAXABLE INCOME.

6 G. IF THE TOTAL AMOUNT OF TAX CREDITS CLAIMED UNDER THIS SECTION
7 EXCEEDS ONE MILLION FIVE HUNDRED THOUSAND DOLLARS IN ANY CALENDAR YEAR, THE
8 DEPARTMENT SHALL NOT ALLOW IN ANY SUBSEQUENT CALENDAR YEAR ANY ADDITIONAL TAX
9 CREDITS UNDER THIS SECTION.

10 H. FOR THE PURPOSES OF THIS SECTION, "WATER CONSERVATION SYSTEM" MEANS
11 A SYSTEM OR A SERIES OF COMPONENTS OR MECHANISMS THAT ARE DESIGNED TO PROVIDE
12 FOR THE COLLECTION OF RAINWATER OR RESIDENTIAL GRAYWATER. WATER CONSERVATION
13 SYSTEM INCLUDES A SYSTEM THAT IS CAPABLE OF STORING RAINWATER OR RESIDENTIAL
14 GRAYWATER FOR FUTURE USE AND REUSING THE COLLECTED WATER FOR THE SAME
15 RESIDENTIAL PROPERTY.

16 Sec. 6. Purpose

17 Pursuant to section 43-223, Arizona Revised Statutes, the legislature
18 enacts sections 43-1090.01, 43-1090.02 and 43-1182, Arizona Revised Statutes,
19 as added by this act, to encourage taxpayers to install water conservation
20 systems to provide for the collection of rainwater or residential graywater
21 for future reuse of the reclaimed water by the taxpayer.

22 Sec. 7. Effective date

23 This act is effective and applies to taxable years beginning from and
24 after December 31, 2005.